



March 12, 1997

Honorable Christopher J. Dodd
United States Senate

Honorable Joseph I. Lieberman
United States Senate

Honorable Barbara B. Kennelly
House of Representatives

This report presents the results of the Office of Inspector General's (OIG) evaluation of the Federal Deposit Insurance Corporation's (FDIC) justification and analysis supporting its planned 1999 closure of the Northeast Service Center in Hartford, Connecticut. We conducted this review based upon your joint request to evaluate the costs, cost-assumptions, and non-cost factors of consolidation in Dallas versus consolidation in Hartford. As also requested, we evaluated the costs of keeping offices open in both Hartford and Dallas.

We found that the costs and cost-assumptions presented by the Corporation were reasonable. We evaluated the methodology the Corporation used to calculate personnel costs and determined that it adequately addressed the numerous factors that impact such costs. Based upon concerns expressed by you and your staffs, FDIC prepared a cost summary assuming that Hartford's regional pay differential will decrease to 0 percent from 1999 to 2004 and locality pay will remain constant. The analysis showed that it would still cost \$18 million more to keep the Hartford office open rather than Dallas.

With regard to leasing costs, FDIC fairly presented the costs associated with consolidating in either Dallas or Hartford. Projections and assumptions were reasonable and supported by leasing documentation. We did identify several adjustments that should be made to the scenarios presented. However, the net effect of the adjustments reduces the estimated costs of both scenarios by \$953,000. Thus, Hartford remains more expensive under the scenarios, with Dallas leasing costs expected to be about \$55.2 million and Hartford \$56.1 million.

We also looked at the non-cost factors presented by the Corporation as favoring consolidation in Dallas. We did not find any deficiencies in how the Corporation analyzed and considered these factors.

Finally, we estimated the cost of keeping both the Dallas and Hartford offices open. The Corporation did consider this possibility when it was evaluating options for consolidating its asset servicing and resolutions and receiverships functions. As you know, FDIC concluded a single office was the most efficient and cost effective consolidation option. Throughout our

review, management reiterated that the Corporation's expected asset workload will not justify a multiple office scenario. The scope of our work precludes us from rendering an opinion on the prudence of a two office structure.

Nevertheless, we analyzed potential costs under a two office scenario, assuming Dallas and Hartford would remain open. If the Hartford office remained a full service office--one that performed all asset servicing and resolution and receivership functions--we determined it would cost \$26.9 million more than a single office in Dallas during the period August 1999 through 2004. If Hartford were kept open as a specialty satellite office, dealing only with a specific category of assets, it would cost FDIC \$18.5 million more to maintain the two offices rather than the one consolidated office over the same time period.

We are providing a significant amount of data that we either produced or collected from FDIC that is associated with FDIC's justification for closing the Hartford Office. Management and staff of the Corporation promptly and fully provided us with documents and data required to complete our evaluation.

We are providing copies of this report to FDIC. We will make copies available to others upon request. Should you have any further questions, please call me at (202) 416-2026. We will also be pleased to brief you on our results should you wish us to do so.

Sincerely yours,

Gaston L. Gianni, Jr.
Inspector General

Contents

<i>Transmittal</i>	<i>1</i>
<i>Introduction</i>	<i>5</i>
<i>Results in Brief</i>	<i>6</i>
<i>Scope and Methodology</i>	<i>8</i>
<i>Background</i>	<i>9</i>
<i>Projected Asset Workloads</i>	<i>12</i>
<i>Personnel Costs</i>	<i>15</i>
<i>Leasing Costs</i>	<i>19</i>
<i>Non-Cost Factors</i>	<i>22</i>
<i>Multiple Office Scenario After 1999</i>	<i>26</i>
<i>Appendixes</i>	
<i>1. Assets from Projected Failures 1997-1998 by Region</i>	<i>34</i>
<i>2. Assets in Liquidation</i>	<i>35</i>
<i>3. Asset Balances Assuming SWSC Remains Open</i>	<i>36</i>
<i>4. SWSC Assets by Type at 12/31/99</i>	<i>37</i>
<i>5. NESC Assets by Type at 12/31/99</i>	<i>38</i>
<i>6. Asset Balances Assuming SWSC and NESC Remain Open</i>	<i>39</i>
<i>7. Cost Summary: Alternative Consolidation Scenarios Based on 1996 Pay Rates</i> ..	<i>40</i>
<i>8. Cost Summary: Alternative Consolidation Scenarios With 1997 Pay Scales and Reduction of Hartford RPD to 0%</i>	<i>41</i>
<i>9. Leasing Analysis for Consolidation of DRR in Dallas</i>	<i>42</i>

10.	<i>Leasing Analysis for Consolidation of DRR in Hartford</i>	46
11.	<i>Analysis of Leasing Costs for Consolidation of DRR in Dallas and Hartford with Full Service Offices at Both Locations</i>	49
12.	<i>Analysis of Leasing Costs for Consolidation of DRR in Dallas with Hartford as a Speciality Satellite Office</i>	50
13.	<i>Analyses of Selected Lease Costs Associated with Closing the Atlanta, Irvine and Chicago Offices</i>	51
14.	<i>Analysis of Selected Lease Costs Associated with Closing the Hartford DRR Office</i>	54
15.	<i>Analysis of Potential Benefits and Negative Impacts</i>	55
16.	<i>Comparison of Single Office Scenario (Dallas) to Two Office Scenario (Dallas/Hartford)--Speciality Office Scenario</i>	58
17.	<i>Comparison of Single Office Scenario (Dallas) to Two Office Scenario (Dallas/Hartford)--Full Service Center Scenario</i>	89

Introduction

Results in Brief

Overall Conclusion

We found that the costs, cost-assumptions, and non-cost factors presented by the Corporation to justify its planned closure of the NESC and consolidation of DRR activities at the SWSC were reasonable.

Asset Workloads

During December 1996, field offices submitted projected asset workloads to Headquarters. The asset balances for the SWSC and NESC at December 31, 1999, were projected to be \$1,064 million and \$440 million, respectively, assuming the consolidation of the other service centers into the SWSC. The projected asset balances were based on historical institution failure rates, projected asset disposition rates, and the rate failed assets pass to FDIC. The two largest asset categories at the NESC are projected to be real estate loans (30 percent) and commercial loans (27 percent). Real estate assets valued at \$17 million are expected to account for 4 percent of the assets remaining. These asset workloads, in conjunction with workload drivers, and staffing correlations, were loaded into a model and used to project staffing needs. *(See pages 12 through 14 and Appendixes 2 through 6.)*

Personnel Costs

We evaluated the methodology the Corporation used to calculate personnel costs and determined that it adequately addressed the numerous factors that impact such costs. FDIC's January 1997 analysis that was prepared for the Connecticut delegation showed that total costs would be about \$36.8 million more in Hartford than Dallas, of which \$27.5 million resulted from the higher locality pay and regional pay differential (RPD) paid to Hartford employees. Based upon the concerns expressed by the delegation and members of their staffs, FDIC prepared a cost summary assuming that Hartford's RPD will decrease to 0 percent from 1999 to 2004 and locality pay will remain constant. The analysis showed that it would still cost \$18 million more to keep the NESC open rather than the SWSC.

We also determined that FDIC appropriately factored in relocation and severance costs in comparing the personnel costs associated with closing the NESC. *(See pages 15 through 18 and Appendixes 7 and 8.)*

Leasing Costs

FDIC fairly presented the costs associated with consolidating in either Dallas or Hartford. Projections and assumptions were reasonable and supported by leasing documentation. We did identify several adjustments that should be made to the scenarios presented. However, the net effect of the adjustments reduces the estimated costs of both scenarios by \$953,000. Thus, Hartford remains more expensive under the scenarios, with Dallas leasing costs expected to be about \$55.2 million while Hartford costs would be \$56.1 million from 1997-2004.

As part of our review of the costs associated with keeping both the Dallas and Hartford offices open, we determined that leasing costs would be about \$57.0 million to operate DRR in both Dallas and Hartford in a full service capacity. If Hartford were to operate as a speciality DRR satellite office, we estimate leasing costs would be approximately \$57.6 million. The additional costs for leasing under the satellite office scenario is attributable to vacant space costs that would be incurred in Hartford. (*See pages 19 through 21 and Appendixes 9 through 14.*)

Non-Cost Factors

We also looked at the non-cost factors including geographic location, airport accessibility, co-location with other FDIC divisions, and concentration of permanent staff presented by the Corporation as favoring consolidation in Dallas. We did not find any deficiencies in how the Corporation analyzed and considered these factors. (*See pages 22 through 25.*)

Multiple Office Scenario

As requested, we evaluated the possibility of keeping both the SWSC and NESC open. The Corporation did consider this possibility when it was evaluating options for consolidating its asset servicing and resolution and receivership functions. As you know, FDIC concluded a single office was the most efficient and cost effective consolidation option. Throughout our review, management reiterated that the Corporation's expected asset workload simply will not justify a multiple office scenario. Given the Corporation's past asset sales activity, the expected asset workload appears reasonable.

Nevertheless, we analyzed potential costs under a two office scenario, assuming the SWSC and NESC would remain open. If the NESC was a full service office, we determined it would cost \$26.9 million more during the period August 1999 through December 2004 to operate two offices rather than a single office in Dallas. If the NESC was kept open as a satellite office, it would cost FDIC \$18.5 million more to maintain two offices during that time period. (*See pages 26*

through 33 and Appendixes 15 through 17.)

Scope and Methodology

- Interviewed FDIC Division of Administration (DOA), Division of Research and Statistics (DRS), and DRR officials involved in estimating future asset workloads, core staffing needs, and leasing considerations.
- Interviewed management officials and employees from the NESC.
- Interviewed National Treasury Employees Union officials at the NESC.
- Interviewed staff members of Senators Dodd and Lieberman to understand Congressional concerns.
- Reviewed FDIC cost models and the relevant documentation for determining: (1) DRR staff necessary to manage asset workloads, (2) salary and benefit costs associated with each single office closing scenario, and (3) leasing costs associated with each single office closing scenario.
- Developed our own staffing and cost model based on FDIC's staffing and cost model and assumptions so that we could project costs associated with maintaining two offices beyond 1999.
- Analyzed the detailed lease analysis and other documentation that was prepared in response to Congressional inquiries.
- Reviewed supporting lease files and documentation pertaining to leasing costs for the SWSC and NESC, as well as lease actions that were in process in Dallas.
- Evaluated costs projected for all offices pertaining to vacant space, operating expenses for vacant space, termination/contraction, and holdover because of the significance of the amounts involved.
- Analyzed non-cost factors involving the NESC and SWSC--geographic location, airport accessibility, co-location with other FDIC divisions, and concentration of permanent staff.
- Relied upon asset and staffing information provided by FDIC. When possible, we independently reviewed original FDIC source documents and verified FDIC calculations.

- Conducted this review between February 12, 1997, and March 7, 1997, in accordance the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*.

Background

The following chronology describes the process FDIC used to develop projections of future asset workload and core staffing.

April 1996

The Operating Committee requested that DRS begin a detailed study of the projected asset workload for 1997 - 2007.¹ The study was based on historical data, including a review of the FDIC's pre-crisis environment, the crisis period and the current status of the industry. The key factors were the:

- number and asset size of past failures
- rate failed institutions' assets pass to the FDIC
- FDIC's asset disposition rate

May 1996

DRS made their first presentation of the workload analysis to the Operating Committee.

The Operating Committee requested that DAS begin development of a core staffing simulation model to project staffing needs at the branch and functional level.

June 1996

The Operating Committee was briefed several times by DRS during the month. The Operating Committee reviewed various workload assumptions and approved core staffing assumptions.

DRS projected the Corporation's total asset workload for the period 1997-2007 to be within the range of \$1-\$8 billion based upon its historical analysis. The assumption was based on the projection that there would be a minimum of \$1 billion in assets in inventory at any one time and that there would be one or two very large failures during the period that would briefly increase the total to as much as \$8 billion in assets in inventory.

¹The Operating Committee is comprised of the Chairman, Vice Chairman, Deputy to the Chairman and Chief Operating Officer, Deputy to the Chairman for Policy, Deputy to the Director, Deputy to the Vice Chairman, General Counsel, Division Directors, and Directors of the Office of Equal Opportunity, Office of Corporate Communication, and Office of Policy Development.

DRS determined the core asset workload would be \$2.0 billion.

The percentage of projected failed institutions' assets by region for the period 1997-1998 is included as a pie graph in Appendix 1. The FDIC does not project specific institutional failures beyond 2 years. Assets from institutions projected to fail in the Northeast amounted to 11 percent of the total for projected failures. Assets from institutions projected to fail in the West amounted to 65 percent of the total for projected failures.

July 1996

Each DAS branch completed Core Staffing Worksheets. The worksheets contained two sections:

- A definition of the branch's functions, the related workload driver, and the driver definition.
- The workload assumptions, workload driver, staffing correlation and driver substantiation.

An example of a workload driver and staffing correlation follows:

- Branch: Asset Management and Disposition
- Function: Loan Management/Non-Performing Loans
- Workload driver: Asset/file review.
- Staffing correlation: 0.034539 Professional Staff per \$ million book value of Loans and Other Assets
0.049499 Support Staff per \$ million book value of Loans and Other Assets

The workload drivers and staffing correlations for each branch and function were loaded into the model.

DAS used the staffing model to project core staffing for three scenarios: five offices plus Headquarters, two offices plus Headquarters, and one office plus Headquarters.

The Deputy to the Chairman and Chief Financial Officer and DRS reviewed the projected asset workload and decided the core asset workload should be at a level which includes the majority of the assets passed to the FDIC from small institution failures. The projected asset workload from small failures was expected to be relatively constant during the period 2001-

2007. They further

determined that DAS should be staffed for the average amount of assets in inventory at any one time--the core asset workload. Thus, they adjusted the core asset workload down to \$1.5 billion.

The projected asset workload and its proportion from existing assets, new large failures and new small failures is included as an area graph in Appendix 2. The core asset level is shown across the projected asset workload.

A meeting between the DAS Regional Directors and the DAS Deputy Directors was held to discuss the number of DAS offices the core asset level would support. Because of the small number of projected core assets in liquidation--\$1.5 billion--the one office plus Headquarters scenario was selected. There was no discussion of the site location at that time.

August 1996

DAS and DOR decided to merge because the number and size of failures was expected to remain small for the foreseeable future and could not support two separate divisions.

The DAS Deputy Director and Headquarters staff analyzed each service center's cost and non-cost factors and selected the SWSC as the consolidated field site.

Senior Corporate executives met in Washington, D.C. and the following recommendations were agreed upon: the merger of DAS and DOR to form DRR, the selection of the SWSC as the location of the consolidated DRR field office, the expected office closing dates, and the core staffing levels.

October 1996

The Board of Directors approved the office consolidation and downsizing plan. The following is a schedule of office closings:

Service Center Closure Date	Service Center
April 25, 1997	MWSC
August 29, 1997	SESC
December 31, 1997	Franklin, MA Satellite Office
2nd or 3rd Quarter, 1998	WSC
3rd or 4th Quarter, 1999	NESC

Projected Asset Workloads

One Office Scenario After 1999

- In December 1996, field offices submitted projected asset workloads to Headquarters. The Headquarters staff reviewed the projections for anomalies and made adjustments for securities (securities are marketed by Headquarters). The site workloads were summarized in the Projected Asset Balances by Office report. The projected asset workload for 1999 was extrapolated from 1997-1998 data and was based on Corporate Workload and Sales Assumptions used for core staffing.
- The asset balances for the five service centers and outside servicers for the period December 31, 1996, through December 31, 1999, are shown in a bar graph included as Appendix 3. The balances were obtained from DRR's Projected Asset Balances as of December 31, 1996. The NESC balances included Franklin assets. The SWSC is shown as the **remaining office** on December 31, 1999, with assets totalling \$1,504 million. This amount is the total of all assets expected to be serviced by the FDIC as of December 31, 1999.
- The percentage of assets by type at the SWSC and the NESC projected as of December 31, 1999, are shown in pie charts included as Appendixes 3 and 4. The two largest asset categories at the NESC are projected to be real estate loans (30 percent) and commercial loans (27 percent). Real estate owned (REO), valued at \$17 million, is expected to account for 4 percent of the assets remaining. These percentages are similar to the January 1, 1997, percentages because the projected asset workload for 1999 was extrapolated from 1997-1998 data and was based on Corporate Workload Assumptions used for core staffing.
- Under a one office scenario, DRR would conduct the national asset management and disposition function from the SWSC. The DRR Senior Deputy Director told us that, in a sense, DRR is already operating in this manner. He stated that the service centers are currently responsible for assets that are outside their geographic area of responsibility and loan servicers are located throughout the country. He told us that working from one central location would increase efficiency of operations. For example, prospective purchasers could telephone one number to inquire about assets. They would then be referred to local sales agents working for FDIC under local property management agreements.

The DRR Senior Deputy Director stated that if there is a need for on-site presence at a distant location because a failure has occurred, FDIC has the authority to hire temporary employees for up to 6 months or longer, if necessary, to deal with the functions that need to be accomplished locally. After 6 months, such functions should

be accomplished and the remaining work can be transferred to the SWSC. In addition, in situations where there are complex loans or a group of borrowers in one location that need to meet with service center representatives, FDIC can travel to that location to conduct business locally.

With regard to travel, the Senior DRR Deputy Director stated that he did not anticipate a big increase in DRR travel costs. He stated that DRR incurs travel costs as a normal part of conducting business. With a greatly reduced inventory of owned real estate and a core asset workload of only \$1.5 billion, he believed travel expenses will have a small impact on the costs of centralizing in the SWSC.

Two Office Scenario After 1999

- DRR ran the core staffing model under a two office scenario at the request of the OIG, including the SWSC and the NESC, based on the following assumptions:
 - The SWSC was to be the full service office and the NESC was to be a speciality satellite office that would manage one specific type of asset, such as commercial loans.
 - The asset balances for the five service centers and outside servicers for the period December 31, 1996, to December 31, 1999, are shown in a bar graph included as Appendix 6. The asset balances for the SWSC and the NESC on December 31, 1999, were projected to be \$1,064 million and \$440 million, respectively.
 - The \$440 million in assets projected for the NESC would be sustained until 2005 through the transfer of assets from failed institutions.

Use of Contractors to Perform DRR Functions

- DRR employs contractors to perform various DRR functions when it is more efficient to do so. This results from the need to deal with the large inventory of work left over from the Resolution Trust Corporation. These contractors include loan servicing and property management firms--which make up the bulk of DRR contractors. At our request, FDIC provided us with listings of active loan servicing and property management contracts for the SWSC and the NESC.

The SWSC has 13 loan servicing contractors, six of which have expiration dates into and beyond 2000. At the time of our review, the six loan servicers are projected to have 25

assets with a book value of \$145 million at 2000. The SWSC also has 50 active property management contracts, only four of which have termination dates beyond December 31, 1997.

The NESC has three loan servicing contractors. All have contract expiration dates during 1997. At the time of our review, the three loan servicers held assets with a total book value of \$348 million. The NESC also has 40 active property management contracts. Thirty-one of the property management contracts have expiration dates of December 31, 1997, and nine have expiration dates of December 31, 1999.

Personnel Costs

- DOA's cost model adequately addressed all cost considerations and we identified no exceptions with the model's logic or methodology. The methodology is explained below and in the table on page 16.
 - DOA developed a cost model supporting personnel costs for five scenarios; a single office consolidation scenario in each of the five service center locations, SWSC, NESC, MWSC, SESC, and WSC.
 - DOA based its employee population on approved core staffing numbers for 1996 through 2000. DOA projected its cost analysis through 2004 and assumed a static employee population between 2001 and 2004. DOA assumed attrition would occur at 4.3 percent for executive level employees and 3.4 percent for general graded employees during 1998. DOA did not consider attrition in its model for 1996 and 1997 because it assumed that during this time of uncertainty employees remained on board for as long as possible to compete for available positions. DOA did not consider attrition in its model for 1999 through 2004 because it did not want to make predictions that far into the future. However, DOA's attrition assumptions do not impact the number of positions in the employee population which would still have to be filled and paid for by each service center.
 - For closing sites between 1996 and 2000, DOA determined the number of employees expected to take the buyout or go through a Reduction-In-Force (RIF). Using the population of employees offered the buyout, DOA did a cost benefit analysis as the basis for determining the number of employees expected to take the buyout compared to the number of employees expected to wait for a RIF and receive severance pay.
 - DOA included DRR support staff and support staff from other divisions in its calculations. Support staff from other divisions consisted primarily of employees from the Legal Division and the DOF. DOA included 10 DOF liaison employees in each consolidated site except Dallas.
 - DOA based its calculations on Net Present Value using a rate of 6.36 percent.
 - DOA assumed inflation at 2.8 percent as estimated by the Office of Management and Budget.

DOA Methodology Used to Calculate Personnel Costs

COST CONSIDERATIONS	METHODOLOGY
Base Salaries	<ul style="list-style-type: none"> Average base salary per grade band multiplied by available core staffing positions per grade band. Average base salaries per grade band were determined based on the actual number of existing DRR employees, less the number of employees expected to take the buyout. DOA prepared a cost benefit analysis as the basis for determining the number of employees expected to take the buyout compared to the number of employees expected to wait for a RIF and receive severance pay.
Locality Pay	Base salaries multiplied by locality pay rates as follows: <ul style="list-style-type: none"> Dallas in 1996: 3.31 percent. Hartford in 1996: 5.39 percent.
Regional Pay Differential	Base salaries multiplied by RPD as follows: <ul style="list-style-type: none"> Dallas in 1996: 0 percent. Hartford in 1996: 9.5 percent.
Benefits	Base salaries multiplied by the Corporate average of 30.2 percent.
Taxes	Salaries (including locality pay and RPD) multiplied by: <ul style="list-style-type: none"> 6.2 percent Social Security Tax rate for salaries up to \$62,700. 1.45 percent Medicare Tax Rate applied to all salaries.
Severance Pay	Severance costs were calculated by multiplying average severance payments based on adjusted base salaries by remaining staff at closing site subject to a RIF. <ul style="list-style-type: none"> Severance costs were charged to the consolidation site. Remaining staff subject to a RIF was arrived at by taking the projected staff on board at the closing sites less the number of employees used to fill vacant available positions in the consolidation site. DOA followed U.S. OPM guidelines for determining the number of weeks of severance pay to be received. For example, severance payments were based on one week's adjusted base pay for each of the first 10 years of creditable service plus two weeks of pay for each year of service over 10 years. DOA also considered U.S. OPM estimates for unemployment insurance, personnel processing, appeals, and out placement.
Relocation	<ul style="list-style-type: none"> Relocation costs were based on staff remaining to relocate from the closing sites to available core staffing positions at the consolidation site multiplied by the corporate relocation average of \$50,250. Staff remaining to relocate were obtained on an equitable basis from each of the closing sites.

RPD and Locality Pay

- The Congressional delegation expressed concern that FDIC grossly inflated NESC employees' salaries because it did not take into consideration that Hartford's RPD was decreasing by 3 percent for the past 3 years and that FDIC planned to continue that policy into the future. DOA's original cost summary based on 1996 pay scales showed it would cost \$36.8 million more to keep the NESC open rather than the SWSC. RPD and locality pay accounted for \$27.5 million of the \$36.8 million difference.
- Subsequent to meeting with the Congressional delegation, DOA created an additional cost summary to address the delegation's concerns about the decreasing RPD. In its subsequent cost summary, DOA reduced Hartford's RPD to 2.5 percent for 1998 and to 0 percent for the years 1999 through 2004. In addition, it kept Hartford's locality pay constant at the 1997 rate of 6.36 percent through 2004. The subsequent cost summary also kept Dallas' locality pay and RPD constant at its 1997 rates of 3.25 percent and 0 percent respectively through 2004. The results of this cost summary showed that it would still cost \$18 million more to keep the NESC open rather than the SWSC. RPD and locality pay accounted for approximately \$9 million of the \$18 million difference. See Appendixes 7 and 8 for the original cost summary based on 1996 pay rates that was presented by FDIC to the Congress and the subsequent cost summary prepared by DOA with Hartford's RPD reduced to 0 percent.
- The subsequent cost summary appears to be a conservative projection that includes assumptions favorable to the NESC because it assumes that Hartford's RPD will be reduced to 0 percent from 1999 through 2004 and locality pay will remain constant at 6.36 percent from 1997 through 2004. These assumptions may not be consistent with future events for the following reasons.
 - RPD represents the **cost of living** for a designated geographical area or duty station and is based on many factors such as the cost of transportation, taxes, and housing which could fluctuate throughout the year 2004. A Senior Personnel Management Specialist from the Personnel Services Branch, Compensation/ Benefits Section who helped develop FDIC's 1996 Compensation Program policy supported our opinion that it is difficult to predict whether RPD will remain constant.
 - Runzheimer International, the consultant FDIC relies on for determining RPD annually, will not be issuing RPD figures for 1998 until late this summer.
 - Locality pay is the **cost of labor** for a designated geographical area or duty station and represents the additional compensation needed to lessen the

disparity between FDIC basic pay levels and non-Federal pay levels as calculated by the Bureau of Labor Statistics (BLS). Hartford's locality pay will increase in 1998 because Hartford was designated as a pay area outside of the Rest of the United States (RUS). BLS surveys showed that the pay disparity in the Hartford, Connecticut Metropolitan Statistical Area (MSA) was greater than the pay disparity in the RUS locality pay area. Geographical areas considered in RUS receive the lowest locality pay available. Hartford has been considered in this category through the present time.

Relocation and Severance Costs

- The delegation expressed concern that FDIC incorrectly determined that severance and relocation costs would be greater if the NESC was chosen as the consolidation site and that this conclusion was based upon FDIC's assumption that NESC permanent employees who lose their jobs would be discharged without implementing a RIF which would incorrectly lower severance costs for the SWSC office.
 - We determined that DOA considered the costs of implementing a RIF, such as severance pay, in its cost model for each of the closing sites including the NESC. DOA assumed in its cost model that the severance costs would be charged to the consolidation site.
 - At the point of consolidation under each service center scenario, DOA assumed that vacant available positions would be filled by employees remaining in the closing sites. DOA also assumed that vacant positions were filled on an equitable basis with employees from the closing sites at an average relocation cost of \$50,250 based on historical FDIC relocation cases. The relocation costs were charged to the consolidation site.
 - DOA severed employees remaining in the closing sites after the vacant positions in the consolidation site were filled according to U.S. OPM severance guidelines as shown in the table earlier. As stated above, DOA charged severance costs to the consolidation site.

Leasing Costs

We reviewed leasing costs that are projected to be incurred for consolidating DRR operations under three different scenarios--1) consolidation of all DRR operations in either Dallas or Hartford, 2) consolidation of all DRR operations in Dallas and Hartford with both offices being full service DRR field offices, and 3) consolidation of all DRR operations in Dallas and Hartford with Dallas as a full service DRR field office and Hartford a speciality satellite office.

The NESC currently occupies approximately 225,000 rentable square feet of space under two separate leases commonly referred to as One Riverview Square and Two Riverview Square. The space is occupied by multiple FDIC offices, including the Divisions of Finance, Supervision, and Compliance and Consumer Affairs. However, DRR occupies approximately 174,525 square feet of the 225,000 square feet leased. One Riverview Square, which is located at 99 East River Drive, East Hartford, CT, provides 153,113 square feet of space and expires January 31, 2005. Two Riverview Square, which is located at 101 East River Drive, East Hartford, CT, provides 71,887 square feet of space and expires on January 31, 2005. While both NESC leases run through January 31, 2005, FDIC can terminate both leases after January 31, 2000, with no penalty. In addition, the Corporation can release up to 152,448 square feet at any time with no penalty as long as it retains at least four full floors or at least 72,552 square feet. FDIC estimates its space requirements using a factor of 325 rentable square feet per person. Using this estimate, the NESC leases could accommodate approximately 692 people. FDIC currently pays a full service rental rate of approximately \$13.82 per square foot under both leases.

The SWSC currently occupies approximately 490,636 rentable square feet of space in two separate buildings commonly referred to Pacific Place and Spectrum Center. As is the case in Hartford, the Dallas leased space is also occupied by multiple FDIC Divisions. However, DRR currently occupies approximately 270,400 square feet of the space leased. Pacific Place, which is located at 1910 Pacific Avenue, Dallas, TX, provides 295,146 square feet of space and expires on November 30, 1997. Spectrum Center, which is located at 5080 Spectrum Drive in Dallas, TX, provides 195,490 square feet of space and expires on December 31, 1997. Using FDIC's space requirement factor of 325 rentable square feet per person, the SWSC leases could accommodate approximately 1,510 people. FDIC currently pays full service rental rates of approximately \$11.03 and \$12.87 per square foot under the Pacific Place and Spectrum Center leases respectively.

FDIC has initiated actions to replace the two expiring leases that support SWSC. First, FDIC plans to award a lease to satisfy its long term requirements for all Divisions needing space in Dallas. FDIC estimates that the new long term lease it will award will accommodate SWSC's space requirements when it reaches core staffing in the year 2000. Secondly, FDIC is seeking up to 200,000 rentable square feet of additional space to support SWSC's short term space requirements during the period 1997 through 2000.

One Office Scenario

Generally, FDIC's evaluation of leasing costs associated with consolidating DRR operations

in either Dallas or Hartford is fairly presented. The cost figures, assumptions and projections used by management were reasonable and supported by leasing documentation. In addition, some of the assumptions that FDIC used in the Dallas versus Hartford consolidation scenarios, were

conservative and resulted in cost projections that tended to favor the Hartford consolidation scenario.

The net effect of the adjustments that we believe should be made to the Dallas versus Hartford consolidation scenarios would reduce the net estimated cost of both scenarios by \$953,000. Based on the results of our review, we estimate the total leasing cost of consolidating DRR in Dallas would be approximately \$55.2 million as compared to \$56.1 million to consolidate in Hartford. FDIC's analysis had projected leasing costs to be \$56.1 million for consolidation in Dallas, and \$57.0 million for consolidation in Hartford.

FDIC's decision to consolidate DRR in one location and the resulting closure of other sites. FDIC estimates that it will pay \$11.2 million (Net Present Value) for vacant space and early termination of leases in Atlanta, Chicago, and Irvine over the period 1997 through 2002. A detailed illustration of these costs, prior to conversion to a net present value, can be found at Appendix 13. Appendix 14 shows the projected costs for vacant space, operating expenses for vacant space, termination\contraction costs, and holdover costs that would be attributed to Hartford if all DRR were consolidated in Dallas as is currently planned.

Approximately \$3.1 million of the referenced \$11.2 million is for vacant space, while \$5.3 million is for operating expenses related to vacant space. The remaining \$2.8 million relates to termination charges FDIC estimates it will pay for leased space it will terminate early. These costs will be incurred regardless of whether DRR consolidates in Dallas and\or Hartford. FDIC management used a worst case scenario in projecting vacant space costs associated with consolidating DRR operations. While FDIC leases permit subletting of space with some restrictions, management assumed they would not be able to sublet and would have to incur the full cost for vacant space that could not be released back to the landlord or terminated.

In addition, FDIC's analysis of leasing costs associated with the consolidation of DRR in Hartford or Dallas did not factor in the cost of providing leased space to house contractor personnel. Leasing personnel in FDIC indicated that they estimated there were approximately 475 contractor personnel in Dallas, most of whom are associated with DOF contracts, that needed office space. The effect of not factoring these requirements into the leasing analysis, understates the need for space requirements. However, FDIC management followed a consistent methodology and did not factor in space requirements for contractor personnel in either the Dallas or Hartford consolidation scenario.

Non-Cost Factors

FDIC's decision to consolidate DRR's field operations at the SWSC in Dallas, Texas was based primarily upon cost, but it also included a number of non-cost factors which favored the SWSC location. These non-cost factors were:

- Geographic Location
- Airport Accessibility
- Co-location with Other FDIC Divisions
- Concentration of Permanent Staff.

Geographic Location

FDIC determined that a central geographic location was essential under a *single office scenario* to both FDIC staff and the Corporation's investors and customers.

- Central geographic location allows for more expedient access to potential institution acquirers, asset purchasers, borrowers, collateral, and legal jurisdictions throughout the country.
- Of FDIC's five field offices, only two, the SWSC and the MWSC, are centrally located within the United States, from a geographical standpoint. However, the MWSC was not considered to be a viable alternative.

A central geographic location also minimizes the amount of travel time needed to perform resolutions and asset liquidations activities.

- Most states can be reached by FDIC employees within a half-day from the SWSC, whereas travel to many locations from the NESC could require as much as a full day of travel.
- FDIC's investors and customers wanting to conduct business with the Corporation can travel to the SWSC within the one-half day time frame, but might have to spend as much as a full day traveling to the NESC.

Location of the SWSC within the Central Time Zone minimizes time differences for travel and facilitates telephone communications during normal business hours.

- Only a 1- or 2-hour time difference exists between the SWSC and most states, but there is a 3-hour time difference between the NESC and the West coast.

Congressional staff stated that the geographic location of FDIC's field office should be determined by the amount of assets and deposits under the control of FDIC-insured institutions, rather than a central geographic position within the country.

- Congressional staff said that the NESC (combined with the SESC) is centrally located to more than half of all assets and total deposits (insured and uninsured) under control of FDIC-insured institutions.
 - However, the NESC (combined with the SESC) is centrally located to less than half (47 percent) of the insured deposits under control of FDIC-insured institutions.
 - The geographic location of assets and deposits of open institutions is important to FDIC's Division of Supervision (DOS) because they are responsible for supervising those institutions. To that end, FDIC projects it will have 64 DOS and Division of Compliance and Consumer Affairs staff in Hartford in 2000.
 - However, DRR must manage assets from failed institutions and all of those assets are not necessarily located in the same area as the institutions themselves. Thus, it is more difficult to predict in which parts of the country the DRR workload will exist in the future.
 - Due to time constraints, we could not obtain information which would identify the specific location of every asset under the control of the 11,669 FDIC-insured institutions.
 - We did, however, review FDIC projections of future bank failures and they show that over the next 2 years, assets of failed institutions could amount to as much as \$1.8 billion. The overwhelming majority of those institutions are not located in close proximity to the NESC.

Airport Accessibility

- Dallas/Ft. Worth International Airport (DFW) is a hub for two major airlines; a primary hub for American and a secondary hub for Delta. The Bradley International Airport located in Windsor, Connecticut (Hartford Airport) is not a hub for any major airline.
 - The Corporation obtained air traffic, flight, and airport information from the Federal Aviation Administration; Airport management in Atlanta, Chicago, Dallas, Hartford, and Irvine; and SATO Travel and found that DFW had a substantially larger number of incoming and outgoing flights compared to the Hartford Airport.
 - DFW averages about 2,350 flights daily compared to an average of about 255 flights daily at the Hartford Airport.
 - DFW offers direct flights to approximately 140 different cities in the United States compared to 33 direct flights to cities from the Hartford Airport.
- Congressional staff stated that FDIC's airport accessibility analysis was flawed because it created an inaccurate picture of the Hartford Airport's accessibility. They stated that the Hartford Airport is within 90 miles of Boston's Logan Airport and 125 miles of New York's JFK/LaGuardia airports. Congressional staff stated that combining the Hartford Airport with Logan, JFK, and LaGuardia, provides a more accurate picture of accessibility to the Hartford Airport. They stated that the combined airports serve as a central hub for every major airline and provide more daily incoming and outgoing flights than DFW.
 - Because DFW is only 25 miles from FDIC's SWSC in Dallas, it appears reasonable that the DFW would provide greater airport accessibility than the Logan/JFK/ LaGuardia combination given the 90 and 125 miles needed to travel from the airports to FDIC's NESC. Travelers to and from Logan/JFK/LaGuardia airports would need to obtain rental cars or seek taxicab transportation to reach the NESC and return to the respective airport. Either situation increases travel costs and the time needed to get to the NESC.

Co-location with Other FDIC Divisions

- DRR's field resolutions and asset liquidations operations require regular interaction with FDIC's accounting and financial operations.

-- FDIC's National Finance Service Center (NFSC) is located in Dallas, Texas.

- FDIC recognizes that financial servicing can be performed from remote locations, but it is more advantageous to physically co-locate resolutions and liquidations operations with financial operations.
- Locating the functions at one site facilitates timely and accurate communications, provides the opportunity for personal contacts and quicker response times, and eliminates the cost of maintaining liaison functions at other locations.
- As part of its downsizing strategy, FDIC is developing contingency plans for handling the failures of large institutions or an unexpected increase in the number of small failures.
 - These contingency plans call for the assistance of other FDIC divisions, especially DOF and DOS.
 - The Corporation believes it is important for its resolutions and liquidations functions to be consolidated at a site which offers immediate access to a large number of personnel from the other divisions that have the types of skills needed in these circumstances.
 - FDIC's centralized field accounting and financial operations office, the NFSC, and its regional and field supervision offices are located in Dallas. Hartford only has one field supervision office.

Concentration of Permanent Staff

- FDIC determined that having a base of experienced resolutions and liquidations personnel would be a key non-cost factor in selecting a consolidated DRR field site.
 - The SWSC had a larger number of permanent liquidation staff (262) than the NESC (145) at the end of 1996.
 - Because Dallas, Texas was one of the four field locations of the former DOR, Dallas has an experienced base of resolutions expertise.

Multiple Office Scenario After 1999

- As mentioned earlier, DRR did consider a two office scenario when evaluating organizational alternatives, including two options for consolidating the existing DAS and DOR functions into two field offices. However, FDIC management indicated that the Corporation did not analyze the costs, in detail, associated with a two office scenario. Both options contemplated DRR having a full service office and a specialty satellite office which would handle the functions shown below.

Alternative	Full Service Office	Specialty Satellite Office
Option #1	<ul style="list-style-type: none">Franchising and Asset MarketingAsset ManagementOperations	<ul style="list-style-type: none">Franchising and Asset MarketingAsset Management
Option #2	<ul style="list-style-type: none">Franchising and Asset MarketingAsset ManagementOperations	<ul style="list-style-type: none">Asset Management

- FDIC determined that in a two office scenario, it would recommend option #2. The primary reason for this recommendation is that FDIC does not foresee its projected asset workload being great enough to require two full service offices.
- FDIC concluded that a single, full service office was the most efficient and cost effective consolidation option and reflected FDIC's declining resolutions and liquidation workload. FDIC noted that one of the disadvantages to the single office concept was a reduction in the awareness of and responsiveness to local markets. However, as mentioned earlier, DRR estimates its projected December 1999 asset workload at about \$1.5 billion. DRR and DOA officials told us that this asset workload does not justify any type of multiple office scenario.
- FDIC prepared an analysis of the potential benefits and negative impacts of FDIC's existing DRR field structure and its proposed single office concept. While some of these considerations would be applicable under a two office concept, others may not be applicable because of the reduced local presence in more parts of the country. Benefits of a multiple office structure included increased responsiveness to regional needs and awareness of local markets, while benefits of a single office concept

included the

increased ability to market assets in general and by specific groups, and reduced fixed and redundant costs. These benefits and negative impacts are included in detail as Appendix 15.

OIG Analysis of Costs

- As discussed throughout this report, the primary dispute is whether FDIC should retain some form of multiple office concept for DRR functions or move to a consolidated single office approach. Both concepts have decided strengths and weaknesses. Currently, FDIC has 5 DRR offices that are considered full service centers. Full service centers contain functional areas for asset marketing, asset operations and asset management. With the exception of securities, full service centers attend to the management needs of various types of FDIC assets, such as REO, commercial loans, subsidiaries, and other assets.
- FDIC DRR officials told us that if forced to adopt a two office structure, the only alternative they would consider is a consolidated full service center and a separate specialty office which would handle the asset management needs for a specific type of asset. In the Dallas/Hartford scenario, Dallas would become the full service center and would handle asset marketing, asset operations and asset management needs for REO, subsidiaries, other assets and a portion of the commercial loans. Hartford would become a specialty office and would only handle the asset management responsibility for a portion of the commercial loans. However, management continues to view this structure as inefficient and not cost effective.
- To address the delegation's request, we are presenting cost scenarios which address both two office concepts with Dallas as the full service center and Hartford as a: (1) specialty satellite office, and (2) full service center. Both scenarios are based on Hartford having and maintaining a constant asset workload of \$440 million from December 31, 1999 through December 31, 2004. Our analysis addresses Hartford staffing requirements, salary and benefit costs, and leasing costs. We used a methodology similar to the one used by FDIC to support its January 7, 1997, letter to Senator Dodd. Our analysis also presents the net increase in costs of a two office concept over a single office concept. FDIC management strongly disagrees with the practicality of a two office structure given its projected asset workloads and efforts to streamline its field office structure.
- The scope of our work precludes us from rendering an opinion on the prudence of a two office structure.

Specialty Satellite Office Concept

- Based on our cost analysis, we determined that it would cost FDIC \$55.5 million from August 1999 through December 2004 to staff and maintain the Hartford office as a specialty DRR office. The following table presents the costs associated with Hartford as a specialty office for the period August 1999² through December 2004.

Hartford Costs Under a Specialty Satellite Office Concept (in thousands)

Cost Category	Net Present Value Total
Salaries and Benefits Incurred	\$46,471
Leasing Costs Incurred	\$9,077
Total Costs	\$55,548

- At our request, DRR developed staffing estimates for a two office concept with a specialty satellite office in Hartford. For this scenario, DRR assumed that it would transfer enough non-performing loan servicing assets to Hartford to provide a constant workload of \$440 million from December 1999 through December 2004. All other Hartford assets would be transferred to the Dallas office. DRR entered these assumptions into its field staffing model to determine DRR requirements. The DRR Senior Deputy Director also provided estimates for the staff in support of DRR that would be required in Hartford. The following table shows FDIC's estimated staffing for the single office concept compared to the staffing required for a two office concept.

Staffing Requirements

Single Office Concept	Dallas	Hartford	Total
DRR	455	N/A	455
Legal & Other Support	282	N/A	282
Total	737	N/A	737

Two Office Concept	Dallas	Hartford	Total
DRR	414	83	497
Legal & Other Support	266	37	303

²August 1999 is the planned closing date for Hartford under the proposed single office concept. Accordingly, we used this date as the starting period for determining costs associated with maintaining the Hartford office through 2004.

Total	680	120	800
-------	-----	-----	-----

- As shown, an additional 63 positions are required to staff a two office concept as opposed to a single office concept--42 DRR staff and 21 Legal and support staff. These additional positions would be required in the management and clerical support areas and are necessary to support a second office.
 - Stated another way, under a two office concept, 49 percent of the Hartford DRR staff are additional staff required to support a second office.
 - With respect to Legal, five additional staff, or 22 percent of the Hartford legal staff are additional staff required to support a second office.
 - This leaves 16 additional support staff. Ten of these will staff a DOF contingent in Hartford that would not be required under the Dallas single office concept, accordingly all 10 DOF staff are additional staff. The remaining six staff are required for DOA, Division of Information Resources Management (DIRM) and the Ombudsman office. Because of the small numbers of these staff, we considered all six staff additional positions required to support a second office.
- We assumed that FDIC would fill Hartford positions with existing Hartford staff where possible. Accordingly, we assumed that FDIC would avoid relocation costs for the 76 employees that would be relocated under the Dallas single office scenario.
- Our assumptions and calculation of these additional staff rates are used in the Full Service Center analysis. The following table presents 1999 staffing levels for the Hartford office under the specialty office concept and identifies additional staff necessary to support a second office.

Hartford Staffing Levels Required at December 1999 and Corresponding Decrease in Dallas Staffing Levels Under a Two Office Scenario

Division	Hartford Staff	Decrease in Dallas Staff	Additional Staff
DRR	83	41	42
Legal	21	16	5
DOF	10	0	10
DOA	3	0	3
DIRM	2	0	2
Ombudsman	1	0	1
Total	120	57	63

- We compared the cost of maintaining two offices to DOA's estimate of costs for the single office in Dallas. This analysis required adjusting the total cost of the Hartford office for Dallas salaries and benefits and leasing costs that would be avoided by having a second office in Hartford, as well as, eliminating relocation costs and severance costs for Hartford employees that would have otherwise been moved or subjected to a RIF under the single office scenario. We determined that it would cost FDIC \$18.5 million more to maintain two offices than one office during the period August 1999 through December 2004 as shown in the following table and in greater detail at Appendix 16.

Additional Costs Associated with Two Office Concept Versus Single Office Concept (in thousands)

Expense Category	Dallas Single Office Scenario	Two Office -Specialty Office Scenario		
		Dallas	Hartford	Total
Salaries and Benefits	\$446,022	\$423,235	\$46,471	\$469,706
Relocation Costs	\$12,747	\$9,193		\$9,193
Severance Costs	\$21,466	\$18,356		\$18,356
Leasing Costs	\$56,125	\$48,539	\$9,077	\$57,616
Total Scenario Costs	\$536,361	\$499,323	\$55,548	\$554,871
Less Total Costs Under the Dallas Single Office Concept				(\$536,361)

Additional Costs of Second Office in Hartford				\$18,510
--	--	--	--	-----------------

Note: All figures are NPV totals from costs over the time frame 1997 through December 2004 using a discounted rate of 6.36 percent. Under the two office scenario, Hartford costs for the period 1997 through July 1999 are included in the Dallas office costs. Hartford costs for the period August 1999 through 2004 are presented separately to isolate the additional Hartford costs under a two office scenario.

Full Service Center Concept

- Based on our cost analysis, we determined that it would cost FDIC \$113 million from August 1999 through December 2004 to staff and maintain the Hartford office as a Full Service Center DRR office. The following table presents the costs associated with Hartford as a Full Service Center for the period August 1999 through December 2004.

Hartford Costs Under a Full Service Center Concept (in thousands)

Cost Category	NPV Total
Salaries and Benefits Incurred	\$101,969
Leasing Costs Incurred	\$11,072
Total Costs	\$113,041

- To determine an estimate of staff required for a two office structure with a full service center in Hartford, we determined the percentage of projected Hartford assets to total projected FDIC assets at December 31, 1999. We then applied this percentage to the total estimated DRR staff as of December 31, 1999, to identify the pro-rata share of DRR staff dedicated to Hartford assets. We then applied the rates discussed in the previous section to estimate the additional staff required to support a second office-- 49 percent for DRR and 22 percent for Legal. We did not attempt to revise the additional staff number for the non-legal support staff. Accordingly, the Full Service Center scenario presented below could require additional positions to in DOF, DOA, DIRM, the Ombudsman's office or other divisions.
- FDIC management does not agree with our percentage of assets method for estimating staff. However, given the time constraints of this review and the delegation's request for a cost estimate of a two office structure, this appears to be the most practical method for estimating staffing needs. The following table shows FDIC's estimated staffing for the single office concept compared to the staffing required for a two office concept.

Staffing Requirements

Single Office Concept	Dallas	Hartford	Total
DRR	455	N/A	455
Legal & Other Support	282	N/A	282
Total	737	N/A	737

Two Office Concept	Dallas	Hartford	Total
DRR	321	199	520
Legal & Other Support	199	117	316
Total	520	316	836

- As shown, using the rates discussed earlier, at least an additional 99 positions are required to staff a two full service centers as opposed to a single service center--65 DRR staff and 34 Legal and other support staff. Again, these additional positions are required in the management and clerical support areas to support a second office.
- The following table presents 1999 staffing levels for the Hartford office under the full service center concept and identifies additional staff necessary to support a second office.

Hartford Staffing Levels Required at December 1999 and Corresponding Decrease in Dallas Staffing Levels Under a Two Office Scenario

Division	Hartford Staff	Decrease in Dallas Staff	Additional Staff
DRR	199	134	65
Legal	101	83	18
DOF	10	0	10
DOA	3	0	3
DIRM	2	0	2
Ombudsman	1	0	1
Total	316	217	99

- Finally, we compared the cost of maintaining two offices to DOA's estimate of costs for the single office in Dallas. This analysis required adjusting the total cost of the Hartford office for Dallas salaries and benefits and leasing costs that would be avoided by having a second office in Hartford, as well as, eliminating relocation costs and severance costs for Hartford employees that would have otherwise been moved or RIFed under the single office scenario. We determined that it would cost FDIC \$26.9 million more to maintain two full service centers than one office during the period August 1999 through December 2004 as shown in the following table and in greater detail at Appendix 17.

**Additional Costs Associated with Two Office Concept
Versus Single Office Concept (in thousands)**

Expense Category	Dallas Single Office Scenario	Two Office -Full Service Center Scenario		
		Dallas	Hartford	Total
Salaries and Benefits	\$446,022	\$377,883	\$101,969	\$479,852
Relocation Costs	\$12,747	\$9,193		\$9,193
Severance Costs	\$21,466	\$17,210		\$17,210
Leasing Costs	\$56,125	\$45,965	\$11,072	\$57,037
Total Scenario Costs	\$536,361	\$450,251	\$113,041	\$563,292
Less Total Costs Under the Dallas Single Office Concept				(\$536,361)
Additional Costs of Second Office in Hartford				\$26,931

Note: All figures are NPV totals from costs over the time frame 1997 through December 2004 using a discounted rate of 6.36 percent. Under the two office scenario, Hartford costs for the period 1997 through July 1999 are included in the Dallas office costs. Hartford costs for the period August 1999 through 2004 are presented separately to isolate the additional Hartford costs under a two office scenario.